October 1995
FEDERAL RESERVE BANK OF DALLAS HOUSTON BRANCH

Houston Business
A Perspective on the Houston Economy

Recent Trends in Houston's Job Growth

The jobs lost to the oil downturn returned with a strong recovery and expansion of the local economy between 1987 and 1991; a period of flat growth in 1991–93 has gradually accelerated into an expansion that has been under way for two years.

The August issue of *Houston Business* discussed the healthy rates of economic growth Houston has enjoyed for the past two years. Employment growth has averaged 3 percent per year since mid-1993, largely because of a strong national economy and a profitable energy sector. The boost to the local economy from energy has been from exploration, with high levels of activity in the Gulf of Mexico and increased overseas drilling, and from a profitable and expanding petrochemical sector. In contrast, new jobs at the Texas Medical Center and the Johnson Space Center (JSC) have been limited by downsizing and budget-cutting.

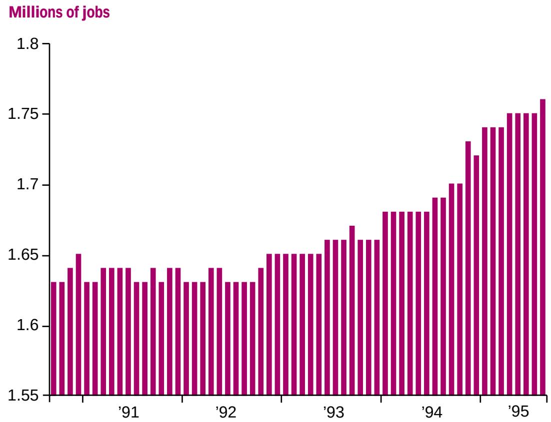
This article presents a close look at Houston's recent job growth, with a focus on gains and losses by industry and a comparison of present hiring patterns with those of earlier years. Current local job growth reflects the combination of specific forces that drive this expansion, as well as ongoing corporate restructuring and a significant retail expansion.

MAKING SOME COMPARISONS

Before 1982, Houston rarely saw slow growth, but with the oil bust of 1982–87 came the city's first major setback, a loss of nearly 13 percent of local wage and salary jobs. The jobs lost to the oil downturn returned with a strong recovery and expansion of the local economy between 1987 and 1991; a period of flat growth in 1991–93 has gradually accelerated into an expansion that has been under way for two years.

Figure 1 represents a closer look at recent job growth, better showing the very flat job growth Houston experienced from the end of the Persian

Figure 1
Total Employment, Houston, 1990–95



Gulf war until 1993. Figure 2 further shows that a sharp downturn in mining activity in 1991, caused by low natural gas prices and a collapse of drilling activity, played a significant role in bringing Houston's 1987–91 expansion to a halt. Employment among oil service and machinery companies fell sharply. Construction and manufacturing jobs also fell, with both sectors losing several thousand jobs over the course of 1991. A national recession added to Houston's problems and slowed its recovery, as did various proposals for health care reform, a review of the space station and a Btu tax.

Table 1 shows total jobs created in Houston by industry sector and for three recent periods—the last two years of the 1987–91 expansion, the no-growth/slow-growth period during 1991–93 and the past two years of growth. All comparisons begin with August of each year. The period 1991–93 stands out from the others as the years when one-fourth of total jobs and one-eighth of private-sector jobs were created. The other two growth periods are very similar in the number of total and private-sector jobs created.

PATTERNS OF GROWTH

The pattern of new jobs created from 1991–93 in Houston is one of few private-sector jobs, sharp declines among goods sectors and new jobs dominated by low-wage retail sectors such as bars and restaurants. Private-sector growth has improved in the past two years, as construction and manufacturing revived, and white-collar jobs are being created in business services and engineering.

The number of jobs in mining (which in Houston means oil and natural gas) has not grown during this expansion. Oil and gas services and machinery have grown moderately (see Figure 2), but the producer sector (which includes the large integrated companies in Houston) continues to retrench. Given the trend throughout American business to outsource accounting, legal, personnel and other functions, upstream energy probably drives growth in some business services. Further, durable manufacturing has added 9,900 new jobs in the past two years, 4,800 of which are industrial machinery. Energy certainly plays a role here. At the same time, electronic and computer-related employment in manufacturing is up by 1,200.

Recent growth in the construction industry has been faster than at any time during the past six years. Over the past 12 months, local contractors have had all the work they could handle in local retail, apartment and warehouse construction. Adding to this boom, as petrochemical profits recovered in 1994–95, dozens of new construction projects were announced for the Houston Ship Channel, including several world-scale expansions. These projects should keep local construction growing for another year or so, and combined with other chemical expansions announced around the world, this construction has already improved the local market for engineers.

Health services have not contributed to recent local job growth. Even in the weak 1991–93 period, health services added 10,500 jobs. Houston has counted on health care as an important source of new jobs in past years, but ongoing

Figure 2
Oil and Gas Employment, Houston by Sector

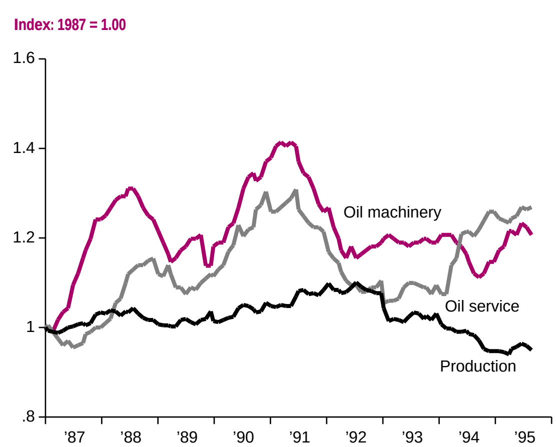


Table 1
Job Growth in Houston, 1989–95
(Thousands of New Jobs)

	1993–95	1991–93	1989–91
Total	101.8	25.4	102.7
Agricultural service	2.0	.2	1.4
Mining	.1	–5.9	6.0
Oil and gas products	–3.4	–2.5	3.0
Oil services	3.5	–3.2	3.2
Other	0	–.2	–.2
Construction	15.3	–.6	5.0
Manufacturing	7.9	–5.0	18.4
Durables	9.9	–6.4	15.4
Nondurables	–2.0	1.4	3.0
Transportation and utilities	6.9	–1.6	6.6
Wholesale trade	4.4	–6.9	4.7
Retail trade	23.6	13.8	7.2
Finance, insurance and real estate	1.6	–1.7	–2.2
Services	26.3	19.5	40.3
Business services	16.0	2.5	7.5
Legal	.4	–.7	1.8
Health services	–.5	10.5	11.7
Engineering and management	2.2	.5	7.4
Social	3.1	2.1	3.0
Educational	1.7	1.1	.7
Personal and other	3.4	3.5	8.2
Total private jobs	88.1	11.8	87.4
Government	13.7	13.6	15.3
Federal	–1.3	–.4	1.6
State	4.8	.8	5.4
Local	10.2	13.2	8.3

NOTE: All comparisons are made August to August.

restructuring of the health care industry and pressure on costs from employers and insurance companies now limit its growth.

The number of retail jobs created in this expansion is high compared with the recent past. These are low-wage jobs, and observers sometimes cite them as a sign of weakness in the overall quality of jobs created by Houston in recent years. It is more likely, however, that they simply reflect a too-rapid expansion of retail space in Houston. Knowledgeable observers of the local retail market have expressed concern about the current and unprecedented high levels of retail floor space, measured either per capita or per dollar of retail sales. The battle between national discounters and the big malls has claimed several smaller regional chains as victims; the smaller chains have lost their local niche to large discounters that offer lower prices and better locations. Already, a national and statewide shakeout is evident in the restaurant industry (a large part of the retail sector) among chains that expanded too rapidly in recent years, especially those that weakened management or overpaid for their locations. The number of new jobs in personal and repair services, also low-wage sectors, is not growing fast, compared with 1989–91.

Local government continues to provide the largest gains in the public sector, followed by state government. Local federal employment is under pressure from budget cuts at the Johnson Space Center, and JSC spending has already fallen from $1.6 to $1.3 billion per year. The Houston area could lose as many as 3,250 civil service and contractor jobs over the next five years.

CONCLUSION

Job growth in the current expansion is not much different from job growth during 1989–91, except for jobs tied directly to upstream energy and retail. Upstream oil and gas mining jobs seem to be depressed by large corporate employers' outsourcing and restructuring. Oil services, machineries and business services seem to have benefited from these trends, however.

Strong sales of autos and existing homes are the best economic news in Houston, and both probably reflect good news from the national economy. Brisk auto sales have come in response to large local inventories and dealer incentives and are part of the larger inventory correction that has shaped the national business cycle in 1995. Existing home sales have climbed in response to falling mortgage rates. Otherwise, Houston appears to be on a course toward steady growth.

RETAIL AND AUTO SALES

Retail sales continue to be highly competitive in Houston, with discounters and large department stores just meeting last year's levels of same-store sales. After a moderate sales increase in June and July, auto and truck sales in August were 20 percent higher than comparable 1994 figures. Large inventories and dealer incentives led to a 28-percent jump in passenger car sales. Meanwhile, spot inventory shortages dampened sales of truck and sport utility vehicle. Year-to-date auto and truck sales are up 4 percent.

CRUDE OIL AND NATURAL GAS PRICES

Thanks to strong demand and low inventories, crude prices slowly strengthened throughout August, although their range remained firmly between $17 and $18 per barrel. Concern over back-to-back hurricanes in the Caribbean combined with low inventories to push crude prices to nearly $19 in early September. Prices should return to a range of $16 to $18 and stay there through the fourth quarter.

Spot natural gas prices at the Henry Hub on the Gulf Coast fell below $1.40 per million Btu but bounced back past $1.60 in late August and September. Strong demand for power generation due to hot weather on the East Coast helped boost prices. For the first time this year, some indicators for natural gas are positive: winter weather, storage refills that lag last year and improved industrial demand.

REFINING AND PETROCHEMICALS

Refiners saw product prices fall over the first half of the summer, but fuel oil and gasoline prices have steadily strengthened since July. Fuel oil and gasoline prices have not risen as much as crude oil prices over the same period, however, eroding refinery profit margins. Margins are down substantially from their strong second-quarter performance and are now average on historical standards.

The market for petrochemicals continued to weaken through August. Beige book respondents blame weak domestic demand, especially from construction and autos, and limits imposed on petrochemical imports by China for weak and declining prices. Opinion is divided over whether this is a temporary lull, or whether prices have peaked for the year. Projects to build new chemical capacity continue to be announced.

OIL SERVICES AND DRILLING

Respondents report that the market for oil services and drilling equipment is strong, as international demand and work in the Gulf of Mexico continue to offset slow onshore drilling activity. Natural gas leads U.S. drilling, but oil-directed drilling rose by 25 rigs in August, rebounding from the lowest levels of the past 50 years. Worldwide utilization rates for offshore rigs are at all-time highs; utilization rates in the Gulf are near the highest rates of the last decade.

REAL ESTATE

The industrial market is exceptionally good, with substantial amounts of build-to-suit activity under way. The office market remains flat, with high vacancy rates continuing in the central business district. Despite a slight uptick in rents, office rental rates remain the lowest of any major metropolitan area. The retail market is strong, with good leasing and substantial construction. Apartment rent increases are just matching inflation. Lower mortgage rates attracted buyers to existing homes in August, as sales hit a five-year high level, up 10 percent from last year.

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